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The Human Dimension of Economic Competitiveness with Evidence from the Dominican Republic

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This report was produced by the Greater Access to Trade Expansion Project (GATE), which is financed by USAID's Office of Women in Development. The purpose of the report is to stimulate reflection on the human dimension of competitiveness, particularly gender aspects. It emphasizes the economic role that women play in competitive situations and the economic benefits of policies and programs aimed at mitigating inefficiencies and inequalities between men and women. The report discusses and defines human capacity as a dimension of economic competitiveness using the concepts of gender equity, efficiency, and competitiveness. Existing institutions and initiatives in the Dominican Republic are identified through which competitiveness can be optimized by reducing gender inequalities.

Economic competitiveness is fundamental to the Dominican Republic's current strategy to enter the global economy. While the Dominican economy has performed remarkably well since the 1990s (with the exception of 2003 and 2004),¹ some sectors—particularly those in the free trade zones—have lost ground to international competition. Between 2004 and 2007, the free trade zones experienced massive layoffs - over 54,000 jobs were lost. Given the impact of both economic and social losses, strategies are needed to reorganize production, trade, and labor (both male and female) towards sectors with greater competitive potential.

This study argues that for these strategies to be truly effective, they must go beyond strictly economic dimensions and include the dimensions of human development and sustainability. The strategies should include elements aimed at raising productive capacity, increasing the productivity of men and women workers and businesses, and promoting more technological research and development. These strategies must also create high-quality jobs, modify the composition of production for export, and guarantee an economic growth leading to increases in employment, family expenditures, and household capacity to invest in health and education. The key means to these improvements is to increase public expenditures and make them more efficient.

THE HUMAN DIMENSION OF ECONOMIC COMPETITION

Traditionally, competitiveness has been defined as the ability of an economy, region, or enterprise to utilize and organize its production factors in accordance with established policies and institutions in order to increase its productivity. This definition, introduced at the World Economic Forum early in this decade, describes competitiveness as simply a *means* to achieve economic growth. Since the 1990s, however, various international organizations and institutions have promoted a definition of competitiveness that takes into account sustainability and the development of human capital.

HUMAN COMPETITIVENESS

The notion of "human competitiveness" includes the capacity of a community to generate the ongoing and sustainable wellbeing of its economic actors. In other words, competitiveness becomes the capacity of a region's businesses, institutions, and individuals to produce, place, and keep consumer goods and services in strategic markets, while promoting prosperity and the sustainable human development of its communities.

The Organization for Economic Cooperation and Development (OECD), for example, introduced an element to the concept of competitiveness to drive productivity: competitiveness is the kind of production that occurs under

¹ In 2003 and 2004, several banks collapsed and the devaluation of the peso had a big impact on the Dominican Republic.

conditions of free trade and fair competition while maintaining or expanding the real incomes of its people over the long-term.²

The International Labor Organization (ILO) also introduced the notion of human capital to achieve competitiveness, redefining the concept to incorporate elements such as the skills, knowledge, and attitudes of individual employees; cooperative working dynamics, teamwork and partnership; and, good working conditions and respect for human dignity.³

Economic theory also reinforces the advantages of including the human dimension in the idea of competitiveness. Competition in economic terms refers to the efficient allocation of resources. This means that resources are utilized in such a way as to maximize net benefit. The discourse on efficiency in economic literature offers two concepts that are relevant to this discussion: “efficiency wages” and “compensating differentials.”

“Efficiency wage” models recognize that there is a distribution of productivity, and that different workers have different levels of productivity. In these models, it behooves the business to offer more than minimum wage to recruit more productive and loyal workers. This strategy lowers recruitment and termination costs and improves productivity through on-the-job acquisition of experience skills by workers.

Workers’ benefits do not have to be strictly monetary. The idea of “compensating differentials” also includes other benefits such as pensions, health insurance, vacation time, appropriate tools, training, and even the work environment itself. A business can use this theory to recruit more highly productive workers, minimize the costs of losing them, and maximize the retention of trained and productive workers.

The challenge at the global level now is for governments, institutions, and citizens to eliminate marginalization, poverty, and social inequity between men and women by creating healthy businesses and economies in addition to creating more wealth and a more equitable redistribution of this wealth. The final goal is to achieve a global distribution, both of productivity and of this greater wealth, and to do so among men and women equally.

Given these objectives, we propose the following as fundamental principles for creating competitiveness with a human dimension:

- **Competition requires a labor force that is sufficiently trained and educated to participate in the increasingly globalized labor market.** Therefore, the implementation of programs aimed at re-training displaced labor and directing it towards new sectors is urgently needed. There must also be investment in human skills, with a view toward the future, through a higher quality education system for girls and boys.
- **Competition should not be based on low wages or on unskilled labor that can be replaced by new machinery.** A competitive advantage based primarily on low-wage labor and with very few “backward linkages” to other sectors is unlikely to drive sustainable and widespread growth. There is no room to continue the practice of using poorly remunerated unskilled labor, especially female labor. Low wages can actually cause businesses to become “lazy” because their competitive advantage is based on lower wages rather than investment towards increasing productivity in uncertain times. Seguino (2000) has found empirical evidence showing that the pressure to lower wages can have negative effects on productivity, since companies face less competition to modernize technologically.⁴
- **Competition requires a diversified labor force and effective units that can collaborate and innovate.** It is important to promote management models that ensure the participation of both men and women with a variety of talents and advantages, improve labor relations and promote a workplace free of sexual harassment, intimidation, and discrimination.
- **Competition should be based on labor markets that facilitate the efficient movement of labor towards those segments where it is valued most.** It is necessary to eliminate the gender-related obstacles that distort labor markets, such as job discrimination and occupational segregation by gender, and promote policies that permit the full participation of men and women in the economy.

² Garelli, Stéphane. “Competitiveness of Nations: The Fundamentals.” April 2002.

<http://members.shaw.ca/compilerpress1/Anno%20Garelli%20CN%20Fundamentals.htm>

³ Tolentiro, Arturo. 2004. New concepts of productivity and its improvement.

⁴ Seguino, Stephanie. “Gender Inequality and Economic Growth: A Cross Country Analysis,” *World Development* 28 no. 7 (2000): 1211-1230.

GENDER EQUITY, EFFICIENCY, AND COMPETITIVENESS

Competitiveness is therefore based on the creation of a trained workforce where both men and women have equal access to employment opportunities and where the development of human capabilities are essential for guaranteeing the generation of individual, corporate, and collective wealth. To do so, it is necessary to eliminate gender-based discriminatory practices, whether intentional or unintentional, from labor markets. Also, policies that facilitate men and women's entry into the labor force by supporting their reproductive and productive roles should be promoted.

Facilitating the integration of women into the labor market is not just a matter of equality and justice, but also a good practice for businesses, corporations, and countries. As described later in this report, various studies show that equality translates into greater wellbeing for developing economies, which can support other efforts to create more egalitarian, democratic, and cohesive societies.

GREATER GENDER EQUALITY PRODUCES FAVORABLE ECONOMIC RESULTS

Studies comparing the economic growth of countries over time confirm the correlation between gender equality and economic growth. For example, one study found a positive correlation between growth and the participation of women in the workforce in 61 countries between 1980 and 1990.⁵ Another study, conducted by the World Economic Forum in 2005, found a clear correlation between gender equality (measured in terms of economic participation, education, health, and political empowerment) and per capita GDP.⁶ The correlation did not prove the direction of causality, but other studies also suggest that gender inequality has a negative effect on long-term economic growth.

REDUCING GENDER-RELATED DISCRIMINATION IMPROVES ALLOCATIVE EFFICIENCY IN THE LABOR MARKET

Reducing gender discrimination leads to greater efficiency in markets. The ILO points out that the discrimination that women and minorities face is a significant obstacle to achieving economic efficiency and social development.⁷ When more than half of the potential labor force of a country is not utilized efficiently, it is inevitable their competitiveness vis-à-vis other countries will be negatively affected.⁸ In the Dominican Republic, the 2007 National Labor Force Survey established the rate of female participation at 43 percent, which is comparable to the average rate of female participation for Latin American countries at 45 percent. However, the unemployment rate for women is 26 percent as compared to 9 percent for men, suggesting that women are not being utilized efficiently in the labor market.

In his work on gender inequalities in the labor market, Zafiris Tzannatos (1999) established a model to measure the difference in production between the current system and a system in which occupational differences between men and women have been eliminated in the industrial sector. Results indicated that women's income could increase significantly, with practically no losses for men. This means that there could be increased production in an economy if women are offered greater participation, with no negative repercussions on men. Furthermore, this study illustrated that, if gender inequalities are eliminated in the Latin American labor market, women's income would increase by 50 percent and national production by 5 percent.⁹

Dominican women receive lower wages than men in all sectors of economic activity: It is estimated that the average income for women is 87 percent that of men.¹⁰ The differences are particularly significant in sectors that employ more women such as "other services," (where 40 percent of women are employed), commerce, hotels, bars and restaurants, and the manufacturing industry. A considerable fraction of the wage difference is probably

⁵ Tran-Nguyen, Ang-Nga, and Americo Beviglia Zampetti, eds. *Trade and Gender: Opportunities and Challenges for Developing Countries*. New York and Geneva: United Nations, 2004.

⁶ The Economist, "A guide to Womenomics." April 12, 2006.

⁷ Walker, Simon. "Human Rights, Gender and Trade" in *Trade and Gender: Opportunities for Developing Countries* edited by Ang-Nga Tran-Nguyen and Americo Beviglia Zampetti, 324-46. New York and Geneva: United Nations, 2004.

⁸ Ibid.

⁹ Tzannatos, Zafiris. "Women and Labor Market Changes in the Global Economy: Growth Helps, Inequalities Hurt and Public Policy Matters." *World Development* 27, no. 3 (1999): 551-569.

¹⁰ Banco Central de la República Dominicana (2003-2007) *Encuesta Nacional de Fuerza de Trabajo*. Santo Domingo: Banco Central.

related to differences in occupations within each sector, whereby women may be concentrated in low-wage occupations while men occupy higher paid, technical positions.

GREATER INTERGENERATIONAL TRANSFER OF WEALTH

Recently, various studies have highlighted how increasing women's income leads to a virtuous cycle of intergenerational transfers of wealth. Greater investment in human capital contributes to the economic growth of a country. When people are better fed and better educated, they can contribute more to economic growth (especially to the composition and volume of production for export), and have a greater capacity to adopt new technologies and introduce innovations based on these technologies.

Women can play a particularly important role in the process of human development and in the creation of human capital. Research has demonstrated that the probability that children will be enrolled in school increases according to the educational level of their mothers.¹¹ The same research also reveals that income in the hands of women has shown to have a more positive impact on family investment in nutrition, health, and education of children than additional income for fathers.

THE PARTICIPATION OF WOMEN CAN LEAD TO HIGHER YIELD IN THE CORPORATE ENVIRONMENT

The participation of women in decision-making processes in their workplaces not only leads to greater equality, but has also been shown to increase productivity. A study conducted by Catalyst Consulting calculated that North American companies with more women in leadership positions generated a 35 percent higher return on capital than those with fewer women in the highest positions. In addition, returns for shareholders of these companies were 34 percent higher than shareholder returns for companies with fewer women in the highest positions.¹²

As part of its work on gender and development, the World Bank (2001) revealed that the norms and prejudices that grow out of gender-related biases are more likely to determine supply and demand of labor in an economy than efficiency. Adverse selection based on gender-related biases leads to overlooking qualified women for jobs based on their sex. In the Dominican Republic, women employed in the free trade zones have a particularly high level of education compared to men. However, according to statistics of the National Council of Free Trade Export Zones, between 1993 and 2005, women held the majority (57 percent) of all low-skilled assembly positions but were a minority within the technical and administrative staff.

ECONOMIC RETURNS FROM THE EDUCATION OF WOMEN AND GIRLS

Ample evidence exists indicating that the education of women increases economic prosperity. In particular, it has been shown that a lack of investment in girl's education can lower GDP. Even when all else remains equal, countries in which the number of women enrolled in elementary or secondary schools is less than 75 percent of the number men enrolled can expect to have GDP levels approximately 25 percent below those of the countries where there is less gender disparity in the field of education.¹³

According to 2007 data on the economically active population of the Dominican Republic, 43 percent of the population had finished primary school, 32 percent had finished secondary school, and 18 percent had some level of university education. These statistics are worrisome since they indicate that the competitiveness of the nation is dependent on a poorly educated labor force. The levels of university education are particularly notable since 26 percent of women in the economically active population has a university education—double the percentage of men. The percentage of women with secondary education is 34.5 percent, greater than that of men by four percentage points. Women in the Dominican Republic are important economic assets and should be incorporated into the economy in order to achieve greater levels of competitiveness.

¹¹ World Bank. *Engendering Development: Through Gender Equality in Rights, Resources and Voice*. New York: Oxford University Press, 2001.

¹² The Economist, 2006.

¹³ ECLAC/CDCC. "Gender Dialogue: Integrating Gender into Macroeconomic Policy and the use of Gender Indicators in Public Policy Making". Port of Spain, Trinidad and Tobago: ECLAC, December 2005.

TRAINING AND COMPETITIVENESS IN THE DOMINICAN REPUBLIC: CONCLUSIONS AND RECOMMENDATIONS

An increase in knowledge and human capital becomes crucial for the competitive integration of the Dominican economy into international trade. Investment in human capital is relevant for recent labor market entrants, and for displaced workers, who need retraining and labor mediation. Investment in human capital can translate into a higher standard of living for households if it broadens opportunities for employment, increases productivity levels, attracts greater investments of capital, and reinforces the income capacity of both men and women.

Unfortunately, few academic institutions and training organizations have adapted their curricula and teaching methods to meet the changing work environment, and the skills and aptitudes required for the modern day workforce. Incorporating training on new technologies and management styles would help better prepare men and women to enter and stay in the workforce. It is important that current education and training processes are grounded in the new management methods and in line with the new aptitudes that are required both at managerial and operational levels.

Significant distortions continue to exist in the labor market that work to the detriment of the economic contribution of women and undervalue their economic contribution. More attention should be paid to identifying gender-related conditions and opportunities to promote increased access to the labor market, workplace promotion and training, the identification of determining factors for occupational and wage segregation by sex, and the development of conciliatory policies and programs that could harmonize the reproductive and productive responsibilities of women workers, such as childcare and maternity benefits. In addition, new training programs with new management methodologies, at both the managerial and administrative levels, could benefit from the integration of modules that raise awareness about gender issues in order to forge better relationships between men and women on teams.

CONCILIATORY POLICIES, LABOR FLEXIBILITY, AND PRODUCTIVITY: MICROSOFT IBEROAMERICA

While conciliatory policies began in Europe with the goal of increasing and facilitating the participation of women in the labor market, today there is a much broader spectrum of these policies. Currently, they refer to multiple actions for promoting policies of equal opportunities between men and women and for improving living conditions for society and in the labor market.

The example of Microsoft IberoAmerica described by Lourdes Colinas (2008) emphasizes that the concepts of efficiency wages and compensating differentials can be used to help resolve conflicts between family life and work simultaneously promoting competition:

"Microsoft Iberoamerica is a company that stands out due to its good practices and policies harmonizing work and family. Around 2004, this company made a fundamental shift in its corporate culture due to a 'talent drain' (especially women between the ages of 28 and 35). These women had long working hours and were constant traveling creating conflicts between work and family. The corporation decided to implement a series of measures to reconcile family and work life through a pilot program designating one line item in the budget to labor flexibility. The conciliation plan appeared risky and was thought to potentially have a negative effect on productivity. Following the implementation of labor flexibility measures, the company also instituted a series of measures that went beyond legally requirements in terms of maternity, paternity, and lactation leave. Microsoft executives call these measures 'management by trust,' which challenges traditional patterns of businesses."

"Results show that the conciliation measures have indeed helped the company to retain staff and have stemmed 'talent flight.' In addition, employees are more satisfied on their jobs since they have a better balance between family and work life. This has an impact on productivity within the company. The possibility of working from home, increasing breastfeeding time to two hours a day, providing maternity leave with 100 percent pay, measuring work by objectives met as opposed to hours worked. The social responsibility measures adopted by this company have earned it several awards, including the 2005 Madrid Flexible Business Award."

Source: *El País Semanal*, Number 1,585, from Sunday, February 11, 2007/ Spain. Quoted in Colinas (2008).

RECOMMENDATIONS TO IMPROVE COMPETITIVENESS FOR THE DOMINICAN REPUBLIC

The following matrix presents a summary of the primary challenges and activities that can be promoted to stimulate competitiveness with efficiency and equity. It also identifies the entities and actors responsible for these areas of action:

PROBLEM ADDRESSED	ACTIONS TO BE TAKEN	RESPONSIBLE GROUPS
The government and other public agencies know very little about the relationship between gender, economic growth, and competitiveness.	<p>Improve the systematic gathering of sex-disaggregated data.</p> <p>Conduct studies about the participation of women in the Dominican economy, occupational segregation, and workplace discrimination.</p> <p>Redefine the concepts of work and revise questionnaires. Train those who analyze information about gender disparities. Work with universities and statistics programs that specialize in gender issues.</p> <p>Increase the capacity of public policy makers to design policies of competitiveness with a gender focus.</p>	National Office of Statistics; National Council of Competitiveness; Secretary of State for Labor; Central Bank; Secretary of State for the Economy, Planning, and Development; Secretary of State for Women; Secretary of State for Higher Education, Science, and Technology; Office of External Commerce and Administration of International Commerce Agreement (DICOEX); Center for Export and Investment in the Dominican Republic (CEI-RD)
The system for training and mediation in the workplace has not reached the women who need it the most.	<p>Conduct studies to determine real gaps and needs in terms of training for men and women and what kind of obstacles both genders will face when they do access training and employment.</p> <p>Offer specialized training for women. Create specialized training centers in areas that can truly take advantage of this segment of the labor force.</p> <p>Form a "diversity group" to revise the policies of the National Training System (SNCap) and other similar programs and give them a gender focus in order to ensure the equitable access of men and women to these programs.</p>	Secretary of State for Labor; Secretary of State for Women; National Institute for Professional Training (INFOTEP); National Office of Statistics; InterAmerican Development Bank (IDB); Social Cabinet; donor institutions.
There is a need to build new capacities related to teamwork and joint work between men and women.	<p>Create new study plans and abilities testing, along with a new supply of trainings by the specialized centers.</p> <p>Include in these plans modules on gender issues, the development of new values of respecting and valuing diversity, and mutual responsibility for domestic work and childcare.</p>	INFOTEP; Secretary of State for Labor; Secretary of State for Women; Secretary of State of Education; international donor organizations.
Women's reproductive roles can limit their entry into the labor market.	<p>Develop conciliatory policies for facilitating the participation of women in the labor market; for example, labor flexibility, and maternity and paternity leave policies.</p> <p>Promote the establishment of daycare and childcare centers, whether through loans and donations to women or small groups for creating childcare centers near the training and work centers, or in conjunction with central and local governments.</p> <p>Promote fiscal incentives to establish private daycare centers and for corporations to support this type of program.</p>	Central government; local governments; private sector; social cabinet; international donor organizations.

ABOUT THE GREATER ACCESS TO TRADE EXPANSION (GATE) PROJECT

The GATE Project is a five-year (September 2004-September 2009) USAID Task Order (TO), funded by the Office of Women in Development (WID) implemented by Development & Training Services, Inc. (dTS). GATE works with seven USAID Missions to better integrate gender considerations into economic growth and trade-related programs in order to help expand areas of opportunity and mitigate the adverse effects of economic and trade expansion for poor women and men. The full reports were produced for USAID/Dominican Republic by the GATE Project and are entitled: "Dinámicas Recientes de la Producción, el Comercio y el Empleo en las Zonas Francas de Exportación de la República Dominicana," and, "Dinámicas del Desempleo en el Sector Textil de Zonas Francas en la República Dominicana entre el 2003 y el 2005." These are available for download, along with more information on other gender and trade-related research on the USAID Women in Development website at [Hhttp://www.usaid.gov/our_work/cross-cutting_programs/wid/](http://www.usaid.gov/our_work/cross-cutting_programs/wid/).